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ABSTRACT

In response to increased federal requirements for mandated services under child support reforms, several states have begun privatizing child support enforcement services that were traditionally delivered by public agencies. This report to the U.S. House of Representatives examines: (1) states' rationale for full-service privatization; (2) how the performance and cost-effectiveness of full-service privatization efforts compare with publicly managed child support enforcement; and (3) issues which could affect future full-service privatization contracts. Information was collected through interviews with child support officials in 12 states and with officials from the Office of Child Support Enforcement and the Internal Revenue Service (IRS). The cost-effectiveness for four fully privatized local offices in Arizona, Tennessee, and Virginia was examined and the performance of each privatized office was compared to a similar public office. Results indicated that fully privatized offices performed as well as or better than public child support programs in locating noncustodial parents, establishing paternity and support orders, and in collecting support owed. Privatized offices were as or more cost-effective than their public counterparts. According to state and contractor officials, differences in performance and cost-effectiveness may have resulted from the flexibility contractors have in acquiring resources and managing staff, greater access to technology, differences in the complexity of the caseloads, and varying payment rates to contractors. The issue of contractor access to IRS data that could have impeded future full-service privatization has been partially addressed by recent welfare reform legislation. (Appendices include discussions of the study's methodology and selected demographic characteristics of the localities reviewed.) (KDFB)

GAO

Report to the Chairman, Committee on
the Budget, House of Representatives

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CHILD SUPPORT ENFORCEMENT

Early Results on Comparability of Privatized and Public Offices



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Health, Education, and
Human Services Division

B-270419

December 16, 1996

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

Since 1984, state child support enforcement programs have been challenged by a 150-percent increase in the demand for services. In fiscal year 1995, the number of cases rose to about 20 million and collections of child support reached a record high of nearly \$11 billion. While faced with this unprecedented workload, child support programs continue to confront state budgetary constraints and increasing federal requirements for mandated services under a series of child support reforms. For example, the recent welfare reform legislation—the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193, Aug. 22, 1996)—requires states to establish automated registries of child support orders and directories of newly hired employees to track and locate parents owing support. To meet these growing demands, many states are moving to privatize child support enforcement services that have traditionally been delivered by the public sector. In some places, states have contracted with private sector firms to assume all local child support services, which we refer to as full-service privatization.

This report responds to your request for information on states' efforts to fully privatize local offices. Specifically, it addresses (1) states' rationale for full-service privatization; (2) how the performance and cost-effectiveness of full-service privatization efforts compare with publicly managed child support enforcement; and (3) what, if any, issues could affect future full-service privatization contracts.

To determine states' rationale for privatization, we interviewed child support officials in the 12 states with 21 local full-service privatization contracts identified in our November 1995 report.¹ To analyze the performance and cost-effectiveness of full-service privatization, we reviewed four fully privatized local offices in three states—Arizona, Tennessee, and Virginia. Specifically, we examined the cost-effectiveness of each of the offices and for a set of new cases we reviewed the degree of success each had in locating noncustodial parents, establishing paternity

¹Child Support Enforcement: States and Localities Move to Privatized Services (GAO/HEHS-96-43FS, Nov. 20, 1995).

and support orders, and collecting support. In each state, we compared a privatized office with a similar public office; additionally, we compared pre- and postprivatization outcomes at one other office. We analyzed the cost-effectiveness in all four office comparisons, but because of data limitations, we analyzed performance in only three of the office comparisons. Appendix I provides a more detailed explanation of our methodology, analysis methods, and results. Finally, to identify what, if any, issues affect full-service privatization, we interviewed federal Office of Child Support Enforcement (OCSE) and Internal Revenue Service (IRS) officials, as well as state and contractor officials in the three states reviewed.

Our results represent the performance of these offices on a small set of cases for an abbreviated time period and do not necessarily represent long-term public and private performance overall within these states.

Results in Brief

Fifteen states have turned to full-service privatization of selected local child support enforcement offices as a way to improve performance and handle growing caseloads that are reaching or exceeding 1,000 cases per worker in some instances. For some offices, privatization has also been a response to state restrictions on hiring additional public employees.

In the three comparisons of performance we conducted, fully privatized offices performed at least as well as or, in some instances, better than public child support programs in locating noncustodial parents, establishing paternity and support orders, and collecting support owed. For example, a privatized office in Tennessee established paternity for 4 percent of the cases needing this service in the first year of privatization compared with about 3 percent in the last year before it was privatized. In Virginia, the privatized office collected support payments from 41 percent of the cases we reviewed, a rate almost twice that of the public office we compared it with.

The relative cost-effectiveness² of the privatized versus public offices, however, differed among the comparisons we made. Specifically, Virginia's and Arizona's privatized offices were more cost-effective—60 percent and 18 percent, respectively—than their public counterparts. However, in Tennessee, one public office was 52 percent more cost-effective than the

²We defined cost-effectiveness as the ratio of each office's administrative costs to collections, expressed as the cost to collect \$1.

privatized office we reviewed, while the remaining privatized office in Tennessee was about as cost-effective as its public counterpart.

According to state and contractor officials, differences in performance and cost-effectiveness among private and public offices may have resulted from the increased flexibility contractors have in acquiring resources and managing staff, contractors' greater access to technology, differences in the complexity of the caseloads, and varying payment rates to contractors for child support enforcement services.

An issue of contractor access to IRS data that could have impeded future full-service privatization has been partially addressed by recent welfare reform legislation. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 authorizes state child support agencies to disclose to contractors certain, but not all, restricted tax data that are useful in locating parents and enforcing payment.

Background

In 1975, the Congress created the federal child support enforcement program as title IV-D of the Social Security Act. The program's purpose is to strengthen state and local child support enforcement efforts for obtaining child support for families who receive Aid to Families With Dependent Children (AFDC)³ benefits and for any non-AFDC individuals who apply for services. Services provided to these clients include locating noncustodial parents, establishing paternity and child support orders, and collecting support owed.⁴ Appendix II contains a glossary of child support enforcement services.

Child support enforcement is a joint federal and state responsibility. Within the federal government, OCSE, in the Department of Health and Human Services (HHS), is responsible for providing leadership, technical assistance, and standards for effective state programs. States or local offices under state supervision deliver child support services to families. The federal government and the states share program costs, including contract costs, at the rate of 66 percent and 34 percent, respectively. In 1995, administrative costs for the program were \$3.1 billion and collections totaled \$10.8 billion. About 19 percent of the cases in the child support program nationwide received a payment in 1995.

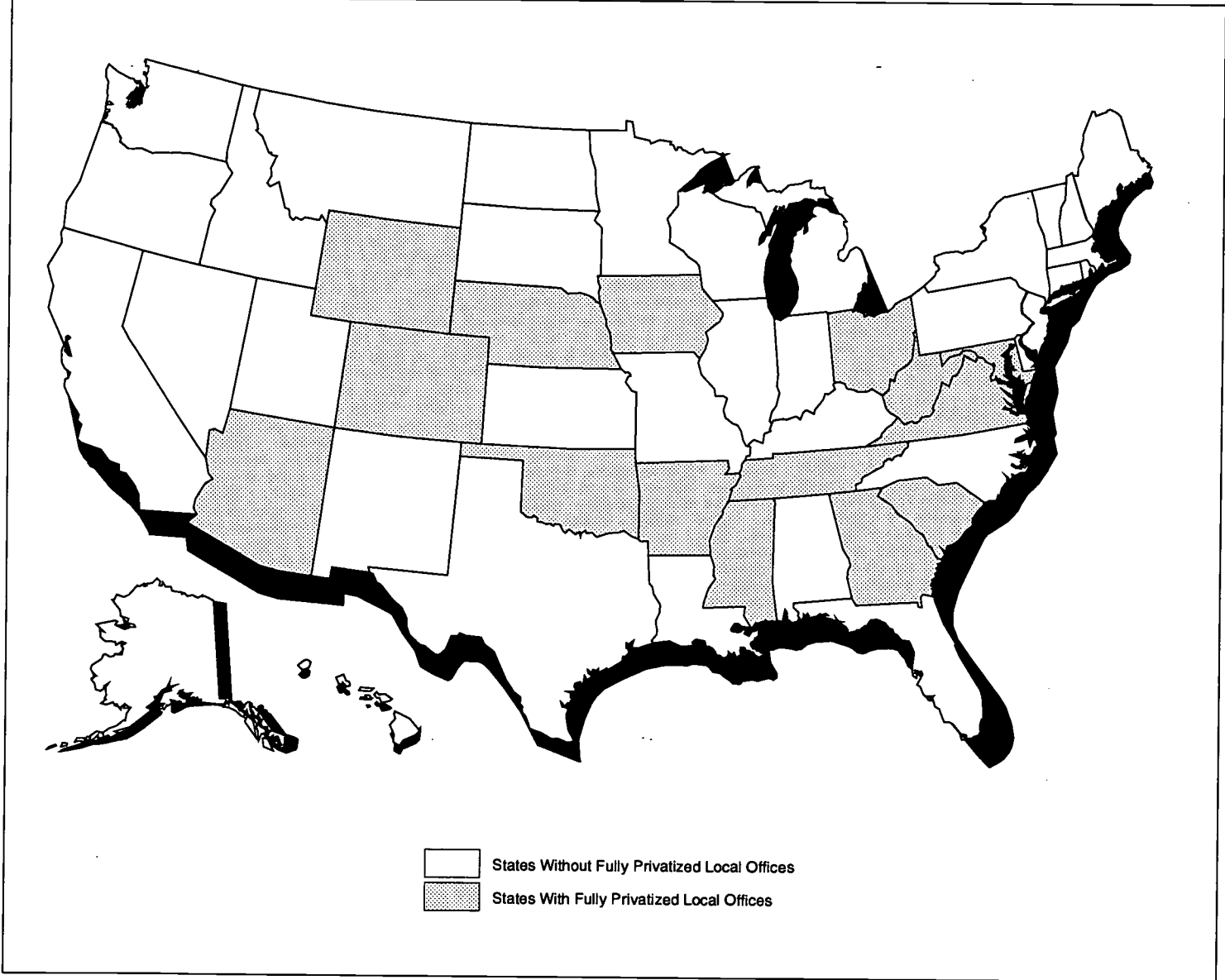
³As of July 1, 1997, AFDC will be replaced by block grants under the Temporary Assistance for Needy Families (TANF) program.

⁴Other services include client intake, customer service, enforcement, and updating and adjusting support orders.

To help meet the demands of growing caseloads in an environment of resource constraints and increasing federal requirements, some states have turned to privatization. In our November 1995 report to you, we provided information on states' privatization of child support enforcement services and identified 37 states that had privatized or planned to privatize portions of their child support caseloads. Some of these states chose to augment their public programs by privatizing particular services, such as locating noncustodial parents or collecting support owed,⁵ while 12 others looked to private sector contractors to assume all local child support services. Under full-service privatization, states contract out all or most of the services traditionally performed by a local public entity, usually a county or judicial district. Additionally, since our November 1995 report, Ohio, South Carolina, and West Virginia have initiated full-service privatization efforts. Figure 1 shows the states in which we have identified fully privatized local offices as of September 1996. Appendix III provides further information on each of these fully privatized offices, including the local jurisdictions they serve, the contractor, and the contract length and its payment terms.

⁵For further information on states' experiences with private agencies' collection of child support payments, see Child Support Enforcement: States' Experience with Private Agencies' Collection of Support Payments (GAO/HEHS-97-11, Oct. 23, 1996).

Figure 1: States With Planned and Ongoing Fully Privatized Local Offices as of September 1996



Most contracts for full-service privatization provide for the contractor to be paid an amount equal to a percentage of the collections generated. Therefore, as a contractor's collections increase or decrease, the contractor's payment—or the administrative costs paid to operate the office—rises or falls proportionately. In our November 1995 report, we

noted payment rates in effect ranging from about 10 percent to 32 percent of collections. Some contracts provide for variable rates that decline over the life of the contract. In these cases, a higher initial payment rate is intended to help the contractor defray start-up costs. Most contracts provide for 2 to 5 years of service.

States Privatize to Improve Child Support Services, Handle Growing Caseloads, and Obtain Additional Resources

Overall, officials in the states with full-service privatization efforts most frequently cited a desire to improve the child support services offered, the need to serve their soaring caseloads, and the ability to deploy additional child support staff as reasons why they fully privatized local offices. At two offices, state officials estimated that caseloads had reached about 1,000 per worker, and they could not get the authority to hire additional public staff. Other major reasons cited by officials include the local child support offices' difficulties in meeting increasing federal program requirements; legislative or executive directives mandating privatization as a way to improve state performance; and local public entities, such as the district attorney, ceasing to provide child support services when faced with rising caseloads, staffing constraints, and additional federal requirements.

State officials in the three states we reviewed cited similar rationales for privatizing the four offices we reviewed within their states. In Virginia and Arizona, officials cited the need to serve growing caseloads. Arizona officials also wanted to provide better service to areas previously considered underserved. At both the offices we examined in Tennessee, state officials eventually turned to privatization after the local district attorneys no longer wanted to operate the local child support offices. State officials had been encouraging the district attorney at one office to improve office performance. Both district attorneys believed that, without additional staff, their offices could no longer meet the federal performance standards and, consequently, both terminated their child support services. Faced with the loss of the governmental service providers, the state contracted out the operation of both child support offices.

Some states have implemented full-service privatization in a way that minimizes displacement of public employees. In Virginia and Arizona, existing districts were subdivided to create new offices in February and March 1994, respectively. Creating new privatized offices in an existing district is considered easier than replacing an established office because no public workers are displaced, according to state officials. At both Tennessee offices, which were privatized in July 1992 and July 1993, the

public workers lost their jobs, but according to state officials, most were offered positions with the private contractor.

Outcomes Are Comparable, but Cost-Effectiveness Varied

Our analysis suggests that fully privatized offices can produce performance outcomes comparable to those of public child support programs. In outcome measures such as locating noncustodial parents, establishing paternity and support orders, and obtaining collections for the cases we reviewed,⁶ the privatized offices in Arizona and Tennessee performed about as well as their public counterparts and the one in Virginia did significantly better. While performance outcomes show that the privatized offices did at least as well or better than their public counterparts, the cost-effectiveness results were more mixed for the periods reviewed.

Virginia's Privatized Office Matched or Exceeded Public Office Outcomes and Was More Cost-Effective

In Virginia, the privately run office that we studied in Hampton performed as well as or better than the public office in Portsmouth that we compared it with. These offices serve similar client populations in suburban and rural areas in the same part of the Tidewater area of Virginia. As table 1 illustrates, the Hampton office established paternity and support orders and made collections for higher percentages of the selected cases than did the Portsmouth office during our 18-month review period. The difference for collections was statistically significant after controlling for differences in caseload characteristics between the offices, such as the percentage of AFDC cases and the services that cases needed, while the differences for establishing paternity and support orders approached statistical significance.⁷ The difference in location rates was not statistically significant.

⁶In Tennessee, these results reflect the performance of a selected office before and after privatization. We did not compare the performance outcomes of our paired offices in Tennessee because of the relatively small number of cases that met our criteria for inclusion in our analysis (see app. I for a description of the kinds of cases excluded from analysis). We did, however, develop cost-effectiveness data for these offices.

⁷Statistical significance indicates that if the cases we analyzed represent a statistical sample of all new cases handled by the offices, there is a less than 5-percent chance of being wrong when concluding that there is a difference between the offices. We considered the paternity and support order results to be approaching statistical significance because they were associated with a slightly greater than 5-percent risk (5.3 and 5.6 percent, respectively) of this type of error.

Table 1: Virginia: Performance Outcomes Compared for 18 Months on New Cases Opened in July 1994

Service needed	Of cases needing service, percent with successful outcome ^a	
	Private office (Hampton)	Public office (Portsmouth)
Location ^b	73.9	58.5
Paternity establishment	40.0	19.2
Support order establishment	35.7	16.8
Collection	40.8	22.3

^aExcept for location rates, the differences between offices were statistically significant or approached significance after controlling for the percentage of cases receiving AFDC and needing specific services (see app. I).

^bActual location rates for both the public and private offices may be understated because the only information available for analysis was whether the office had a valid mailing address for an individual at the end of the 18-month study period. Therefore, because some individuals may have been successfully located at some point during the 18-month period but may not have had a valid address at the end of the period, our data may underestimate actual location rates.

With regard to the cost-effectiveness of the two offices, Hampton's cost to collect \$1 of support was 60 percent lower than that for Portsmouth during the period reviewed.^{8,9,10} As table 2 shows, the contractor was paid 11.5¢ for each \$1 collected, while the public office spent 18.4¢. Also, according to the contract, the contractor's payment will decline to 9.95¢ per \$1 collected in the final year of the 5-year contract.

Table 2: Virginia: Administrative Costs Compared to Collections, July 1994 Through December 1995

Service needed	Private office (Hampton)	Public office (Portsmouth)
Administrative costs	\$1,791,733	\$2,238,482
Collections	\$15,553,480	\$12,197,214
Cost to collect \$1	11.5¢	18.4¢

Additionally, to determine whether privatization resulted in disproportionate increases in state costs, we compared administrative

⁸Program cost-effectiveness can either be stated as the cost to collect \$1 of child support or as the amount of child support collected for each \$1 spent on the program. Because contractors are generally paid a percentage of collections, we chose to use the cost-to-collect-\$1 method.

⁹While we controlled for the percentage of the cases that received AFDC in our comparison of the performance of pairs of offices, we did not do so for the analysis of overall cost-effectiveness. Nevertheless, before analysis, the office pairs were matched on the basis of several criteria, including AFDC caseload.

¹⁰For public offices, we asked state officials for administrative costs incurred solely at the local level. For privatized offices, administrative costs to the state were defined as the payment to the contractor. This excludes some applicable administrative costs such as those incurred to contract for the services and to subsequently monitor them.

costs before and after privatization. In Virginia, the privatized office's administrative costs did not increase dramatically after privatization. In state fiscal year 1994, the first year of privatization, the privatized office's administrative costs grew by less than 1 percent over the previous year's imputed costs.¹¹ In the second year after privatization, the privatized office's administrative costs increased by about 22 percent, a growth rate similar to the public office's 21-percent increase.

Arizona's Privatized Office Performed as Well as Public Office and Was More Cost-Effective

In Arizona, performance outcomes on our review cases revealed that the privately run office in Yavapai County did about as well as the public office in Mohave County that we compared it with; however, the privatized office was more cost-effective during our 18-month review period. Although some differences in outcomes between the public and private offices appear to exist (see table 3) none of the differences was large enough to be statistically significant either before or after controlling for AFDC status and kinds of services needed.

Table 3: Arizona: Performance Outcomes Compared for 18 Months on New Cases Opened in July 1994

Service needed	Of cases needing service, percent with successful outcome ^a	
	Private office (Yavapai)	Public office (Mohave)
Location ^b	37.5	22.9
Paternity establishment	8.7	9.7
Support order establishment	14.3	5.8
Collection	15.1	5.3

^aNone of the differences between the public and private offices' performance was found to be statistically significant either before or after controlling for AFDC status and the kinds of services needed.

^bLocation rates represent cases needing location services at case opening and being located at some point during the review period.

Regarding overall cost-effectiveness, the privatized office had a lower cost per \$1 collected during the period reviewed. Mohave County spent 34.8¢ per \$1 collected, while the contractor received 29.5¢ per \$1 collected for operating the Yavapai County program (see table 4). In addition, under the terms of the contract, the contractor's payment rate will fall to 24.0¢ for every \$1 collected in the final year of the 4-year contract.

¹¹We imputed administrative costs for Hampton because its caseload was drawn from the caseload of its parent office, Newport News.

Table 4: Arizona: Administrative Costs Compared to Collections, July 1994 Through December 1995

	Private office (Yavapai)	Public office (Mohave)
Administrative costs	\$987,700 ^a	\$1,296,092
Collections	\$3,387,792	\$3,720,575
Cost to collect \$1	29.5¢ ^a	34.8¢

^aThese cost figures reflect the payment to the contractor for distributed collections of \$3,348,948, not the collections figure shown.

We were unable to examine the rate of change in the privatized office's administrative costs before and after privatization and compare it with the public office's rate of change. Arizona officials could not break out preprivatization administrative costs for Yavapai County only, which had been served at one time by a multicounty unit. Additionally, the officials believed that such a comparison would be inappropriate, because Yavapai's cases had been underserved before privatization.

Tennessee's Privatized Offices Show Mixed Results

Performance and cost-effectiveness results were mixed in Tennessee, where we reviewed two privatized offices. In the first privatized office, we did not have a sufficient number of cases to compare the public and privatized offices' performance in locating noncustodial parents, establishing paternity and support orders, and collecting support owed. However, we were able to compare the offices' collections and administrative costs for the review period. At this office, our comparison of collections and administrative costs showed that the public Fifth Judicial District office provided services at a lower cost per \$1 collected during the 18-month review period (see table 5). The public office cost was 9.9¢ per \$1 collected, while the privatized office was paid 15.0¢. Both offices serve rural populations within the Knoxville area.

Table 5: Tennessee: Administrative Costs Compared to Collections, January 1994 Through June 1995

	Private office (Seventh Judicial District)	Public office (Fifth Judicial District)
Administrative costs	\$594,930	\$354,025
Collections	\$3,966,143	\$3,578,920
Cost to collect \$1	15.0¢	9.9¢

Finally, at the second privatized office we reviewed in Tennessee, where we analyzed performance and cost-effectiveness before and after privatization, the privatized office generally maintained comparable

performance and cost-effectiveness while serving a more challenging caseload.^{12,13} This office, Tennessee's Twentieth Judicial District, which includes Nashville, was privatized in state fiscal year 1994. Table 6 shows the percentage and table 7 shows the number of cases receiving needed services for a 5-year period beginning with state fiscal year 1991. Five years of data are presented to show data fluctuations from year to year.¹⁴ Comparing the data over the 5-year period shows that while the percentage of cases receiving needed services from the privatized office remained about the same or declined in certain years, the actual numbers of cases receiving most services rose dramatically. Even for the service that showed a decline—the number of cases receiving a collection—the dollar amount of collections in the Twentieth Judicial District increased over 40 percent in the first 2 years of privatization, as compared with 29 percent in the rest of the state.

Table 6: Tennessee: Performance of the Twentieth Judicial District, State Fiscal Years 1991-95

Figures are percents

Cases with successful outcome	Public			Private	
	1991	1992	1993	1994	1995
Location ^a	38.9	37.2	14.3	18.1	34.4
Paternity established	3.6	4.4	3.2	4.0	5.9
Support order established	7.4	4.5	3.2	7.7	4.5
Collection	12.5	24.1	12.5	9.0	10.6

^aLocation rates may include multiple locations for the same individual.

¹²During the period reviewed, the percentage of AFDC cases in this office's caseload grew from about 29 percent to about 54 percent. AFDC cases are generally perceived by child support officials as being more difficult to work. While we were able to control for the percentage of AFDC cases at our other comparison offices, AFDC caseload growth could have affected this comparison.

¹³To examine the possible effect of major changes in statewide policy on the Twentieth Judicial District's performance outcomes, we examined the performance of offices in the rest of the state before and after the Twentieth Judicial District was privatized. In general, we found nothing to suggest that major policy changes were affecting statewide performance outcomes.

¹⁴State officials cited various reasons for this fluctuation, including the implementation of a statewide data system beginning in state fiscal year 1994, heightened efforts to achieve large numbers of case closures in certain years, varying degrees of cooperation with the judicial system in the area of paternity establishment, and other factors related to the transition to privatization.

Table 7: Tennessee: Cases Receiving Service in the Twentieth Judicial District, State Fiscal Years 1991-95

Cases with successful outcome	Public			Private	
	1991	1992	1993	1994	1995
Location ^a	3,657	3,601	1,414	3,608	7,998
Paternity established	424	472	354	927	1,346
Support order established	932	590	406	2,107	915
Collection	7,404	16,200	5,572	3,554	4,349

^aLocation data may include multiple locations for the same individual.

State officials attribute the increase in the number of cases receiving services to the contractor's automated case management system and the employment of additional child support caseworkers and attorneys. This increase in the number of services provided, however, is not reflected in the percentage of cases receiving services because of large increases in identified case needs. State officials attributed this increase to the contractor's systematic review of case files before entering the cases into its automated system.

With regard to cost-effectiveness, the privatized program in the Twentieth Judicial District was about as cost-effective as the public program had been. As shown in table 8, in state fiscal year 1993, the year before privatization, the cost for each \$1 collected was 10.4¢ for the district attorney's office, rising to 12.1¢ in the first year of privatization and declining to 10.7¢ the following year.

While the cost-effectiveness of the program was about the same, administrative costs did increase after privatization. In state fiscal year 1994, this office's administrative costs increased by 28.5 percent over the previous year, in contrast to an increase of 6.1 percent in the rest of the state. The following year, administrative costs grew by 32.7 percent in the Twentieth Judicial District, virtually the same rate as in the rest of the state, 32.6 percent.

Table 8: Tennessee: Administrative Costs Compared to Collections in the Twentieth Judicial District, State Fiscal Years 1991-95

	Public			Private	
	1991	1992	1993	1994	1995
Collections	\$7,748,590	\$12,078,728	\$12,667,589	\$14,409,948	\$17,798,662
Administrative costs	\$986,341	\$1,023,744	\$1,315,643	\$1,745,667	\$1,900,231
Cost to collect \$1	12.7¢	8.5¢	10.4¢	12.1¢	10.7¢

Note: Collections figures before privatization are the subject of a dispute between the state and the contractor. The contractor claims that the figures may be overstated, which may understate our calculation of the cost to collect \$1.

Factors Believed to Affect Performance and Cost-Effectiveness

State and contractor officials believed that several factors affect an office's performance and cost-effectiveness. Factors generally believed to benefit contractors include the increased flexibility contractors have in acquiring resources, managing staff, and having greater access to technology. For example, in Virginia, the contractor was able to obtain computer and other equipment for the new office in Hampton within 90 days of signing the contract. In contrast, state officials described a situation in an unrelated office where delivery of needed equipment was expected to take 7 months under an expedited state acquisition process. Likewise, in Arizona, the contractor had the flexibility to open two privatized offices within 2 months of signing the contract and to replace two managers within the first year of operation. Arizona state officials told us that the removal of state managers could not be accomplished as quickly. Officials in all three states also cited contractors' advantages in technology, such as automated systems for case management, as a possible factor affecting performance differences. Furthermore, in Virginia, the contractor provided additional technologies including extensive databases for locating noncustodial parents, bar-coded files for data management, and the use of videos during intake for consistent and complete orientation of both custodial and noncustodial parents.

In addition to the state officials' beliefs, contractor officials also suggested factors that they believed favorably affected performance outcomes, such as their emphasis on timely and efficient processing of new cases, the co-location of child support workers in AFDC offices for case intake, and expanded evening and weekend office hours. Contractor officials in Arizona, however, believe that their performance was negatively affected by unexpectedly high staff turnover during our review period.

In addition to factors affecting performance outcomes, the major factor affecting the cost-effectiveness of full-service privatization is how much a state has to spend to acquire these services. We identified contract payment rates ranging from about 10 percent to 32 percent of collections. These contract rates are affected by the level of contractor competition and the volume, composition, and collection potential of the caseload. For example, because AFDC cases are considered more labor-intensive to work, state officials said that an office with a high percentage of AFDC cases may require a higher payment rate than one with fewer AFDC cases. Finally, all payment rates are subject to the vagaries of the marketplace. Payment rates that are initially beneficial to a state could change when the service is rebid or reawarded.

Welfare Reform Partially Resolves the Issue of Access to IRS Data

One major issue that could have impeded future full-service privatization—contractors' access to IRS tax information—has been partially resolved by the recent enactment of welfare reform legislation. The issue focuses on whether full-service child support enforcement contractors have the same authority to access IRS data for locating noncustodial parents and enforcing child support orders as public offices have under the law. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 partially resolves this issue by authorizing contractors access to certain tax information.

Currently, IRS, through OCSE, provides states and local child support offices a number of valuable location and collection services. For example, OCSE's Federal Parent Locator Service (FPLS) can request from IRS the social security number and address from a noncustodial parent's most recent tax return. In addition, IRS' Project 1099 program offers child support programs information on sources of earned and unearned income, such as banks and mutual funds, that are reported on IRS Form 1099 and can be used to locate noncustodial parents and their assets. Also, IRS' income tax refund offset program has been the second largest source of collections for the child support program. In 1995, it offset over \$828 million of delinquent child support payments from about 1.2 million delinquent noncustodial parents' tax refunds, in addition to providing offices with filers' addresses. OCSE and the states have granted full-service contractors access to these IRS services and information in the belief that these contractors act in the same capacity as public child support offices; that is, as a designated local child support agency of the state.

Before enactment of the welfare reform legislation, however, IRS officials took the position that section 6103(l) of the Internal Revenue Code did not authorize child support contractors access to this information. In reports it issued in January 1995 and March 1996, IRS found Nebraska and Tennessee out of compliance with the Internal Revenue Code during tax data safeguard reviews¹⁵ because the states had granted contractors access to IRS data. IRS officials are concerned about their ability to safeguard tax information and oppose further disclosure of IRS information for nontax administrative purposes. Federal, state, and contractor officials told us that prohibiting access to IRS data would affect the expansion and continuing operation of privatized full-service child support offices.

At the same time that OCSE and IRS have been working on this issue, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 has partially resolved this access issue. Section 316(g)(4) of the act amends section 6103(l) of the Internal Revenue Code to permit state child support agencies to disclose to contractors the addresses and social security numbers of noncustodial parents and the amount of tax refunds withheld for past-due child support. OCSE officials said that this permits contractors access to FPLS and tax refund offset data, but denies contractors access to unearned income information currently received under the Project 1099 program.

OCSE officials believe that the act partially addresses the issue of access to data, but does not address contractors' access to the Form 1099 information that states and contractors believe serves as a valuable enforcement tool. One possible solution to this continuing problem, according to IRS, is to have a state child support entity verify this information with its original source. Once the data are verified, the information is not subject to nondisclosure requirements. Therefore, in order for the contractor to gain access to Project 1099 program information, a state entity would have to verify it with its source (for example, a financial institution), thus entailing a separate process. However, according to state officials, requiring this additional level of verification by public employees may negate some of the perceived benefits of full-service privatization. Alternatively, under the new law, contractors may have another avenue to obtain unearned income data. Section 372 of the act requires states to match data quarterly with in-state financial institutions. However, HHS noted that it will be some time before data from these matches are available in all states.

¹⁵A safeguard review is an on-site evaluation of the measures used by agencies to protect federal tax returns and tax return information received from IRS.

While welfare reform legislation provides contractors limited access to restricted tax data, it is too early to assess what effect these changes will have on contractors' use of the full range of enforcement tools currently available to public offices.

Conclusions

As child support programs continue to face resource constraints, full-service privatization appears to offer states the opportunity to supplement their child support enforcement services. The results of our examination of full-service privatization show that the offices we reviewed performed at least as well as public offices. However, these results are limited to the cases we reviewed and do not reflect the performance of public or private offices overall within the states selected. Furthermore, because full-service privatization of child support enforcement is relatively new, the extent to which it offers comparable performance and cost-effectiveness remains an issue for additional evaluation over the long term.

Agency Comments

In commenting on a draft of this report (see app. V), HHS said that the report can be a valuable resource to states as they consider full-service privatization of child support enforcement functions. With respect to our observation that the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 has partially resolved the issue of access to IRS data, HHS noted that it will be some time before financial institution data are available in all states. We revised the final report to reflect the availability of such data.

We also received technical comments from HHS, IRS, and the three states and three contractors that we reviewed and incorporated them in the final report as appropriate.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Finance and its Subcommittee on Social Security and Family Policy and the House Subcommittee on Human Resources, Committee on Ways and Means; the Secretary of HHS; and HHS' Assistant Secretary for Children and Families. We also will make copies available to others on request. If you or your staff have any questions about this report, please contact David P. Bixler, Assistant Director, at (202) 512-7201 or Kevin M. Kumanga, Senior Evaluator, at (202) 512-4962. Other major contributors to this report are

Christopher Morehouse, Steven Machlin, Catherine Pardee, and Suzanne S. Sterling.

Sincerely yours,



Mark V. Nadel
Associate Director, Income Security Issues

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Abbreviations

AFDC	Aid to Families With Dependent Children
FPLS	Federal Parent Locator Service
HHS	Department of Health and Human Services
IRS	Internal Revenue Service
OCSE	Office of Child Support Enforcement
TANF	Temporary Assistance for Needy Families

Scope and Methodology

We compared three of the four fully privatized offices we selected for our review with similar public offices, as illustrated in table I.1. The privatized offices selected for these comparisons were Yavapai County, Arizona; the Seventh Judicial District of Tennessee (Anderson County); and the Hampton District Office in Hampton, Virginia. We also compared another privatized office, the Twentieth Judicial District of Tennessee (Davidson County), with the public office that preceded it because it could not be matched with a comparable public office in the state. These private programs were selected because they are among the most mature examples of full-service privatization, having been privatized between 1992 and 1994 (see app. IV for additional information); represent a diversity of geographical and urban/suburban/rural program settings; and include all three of the major full-service contractors. At the time of our review, Policy Studies, Inc., was the contractor for Yavapai County, Arizona; Maximus ran the programs in Tennessee’s Seventh and Twentieth Judicial Districts; and Lockheed Martin IMS managed the office in Hampton, Virginia.

Table I.1: Offices Selected for Performance and Cost-Effectiveness Analysis

State	Private		Public		Methodology used
	Local office	Contractor	Local office	Public entity	
Virginia	Hampton District	Lockheed Martin IMS	Portsmouth District	State Department of Social Services	Paired comparison
Arizona	Yavapai County	Policy Studies, Inc.	Mohave County	State Department of Economic Security	Paired comparison
Tennessee	Seventh Judicial District (Anderson County)	Maximus	Fifth Judicial District (Blount County)	District Attorney	Paired comparison
Tennessee	Twentieth Judicial District (Davidson County)	Maximus	Twentieth Judicial District (Davidson County)	District Attorney	Before and after comparison

To identify public offices for comparison and analysis, we asked state officials to nominate offices for review that had performance records similar to the privatized office before privatization. We then compared these offices with the privatized office, using the selection criteria

identified in table I.2, and selected the office that most closely resembled the privatized program before privatization.

Table I.2: Selection Criteria for Public Offices

Selection criteria	Data used for comparison with privatized program
Performance (for 3 years before privatization)	Location of noncustodial parents Paternity established Support order established Collection
Staffing	Number of caseworkers
Caseload	Size Composition: AFDC and non-AFDC Numbers of new cases, closed cases, and interstate cases
Cost	Administrative costs
Demographics ^a	Population Minority population Median household income Percent of families below poverty Percent of households headed by a single parent Urbanization

^aDetermined from data for the most recent year for which data were available.

For each pair of offices, we defined our sets of cases to review as all those opened in a given month (July 1994 for Arizona¹⁶ and Virginia, January 1994 and randomly selected additional cases from February 1994 for Tennessee). We chose to review new cases to provide both public and private offices the greatest opportunities for successful outcomes and to ensure that neither office had the advantage of any experience with any of the cases.¹⁷ We tracked performance outcomes for an 18-month period. To further assure comparability of cases between the two offices, we excluded cases that (1) closed and did not reopen during the 18-month period;¹⁸ (2) were forwarded to other states to be worked because the

¹⁶Cases were randomly selected for the public office in Arizona, due to the volume of cases opened that month.

¹⁷Child support officials told us that, generally, new cases result in quicker, more positive outcomes than older cases because the information is more current and the cases are easier to work. However, by federal regulations, both new and existing cases must be equally served.

¹⁸These cases closed for a variety of reasons. For example, they closed when the noncustodial parent died; the custodial parent did not cooperate with the child support agency, moved out of the county or state, or was no longer eligible to receive child support; the noncustodial and custodial parents reunited; blood tests excluded the individual identified as the putative father; or the noncustodial parent assumed custody of the child upon the custodial parent's incarceration.

noncustodial parent resided out of state; (3) needed specialized services, usually medical support only; or (4) were mistaken referrals, duplicate cases, or otherwise inappropriate for analysis. Table I.3 shows the number of cases in our original cohorts for each pair of offices, the number of cases excluded, and the number of cases remaining for analysis of outcomes. In each state, we gathered case data for analysis by reviewing case files or automated case management data. Additionally, each state provided collections and administrative cost data¹⁹ for the cost-effectiveness analysis, and Tennessee provided the data for the analysis of the Twentieth Judicial District's performance before and after privatization. We did not verify the state-provided data.

Table I.3: Cases Identified, Excluded, and Examined for Cohort Analysis

	Virginia		Arizona		Tennessee	
	Public	Private	Public	Private	Public	Private
Cases in original cohort	214	211	145	89	89	102
Cases excluded	102	108	87	36	69	50
Cases analyzed in final cohort	112	103	58	53	20	52

The results of our review represent the performance of these offices on a small set of new cases for an abbreviated time period and do not necessarily represent long-term public and private performance overall within these states. However, because both new and existing cases must be equally served, the results can be viewed as a reasonable indication of the overall performance of these offices for that time period.

We also did not compare the performance and cost outcomes of the selected contracts across states because significant differences exist in state demographics, caseloads, child support enforcement tools available under state law, judicial and administrative systems, and levels of state automation, among other factors.

Outcome Analysis

To compare the outcomes of the private and public offices for cases that were in the system for 18 months, we analyzed differences between the

¹⁹Administrative costs did not include indirect costs that states may have incurred in the process of preparing requests for proposals, evaluating bids, and monitoring contracts.

paired offices for Virginia and Arizona in outcomes in each of the following four areas: location, paternity establishment, support order establishment, and collection. All the cases were included in the analysis for collections because all needed collections. However, for each of the other services, cases that did not need the particular service at case opening were excluded from the analysis. Tables I.4 and I.5 contain the number of cases and successful outcomes observed for the paired offices in Virginia and Arizona, respectively.

Table I.4: Numbers of Cases Needing Services and With Successful Outcomes Among Cohort Cases in Virginia Offices

Service needed	Private office		Public office	
	Cases needing service	Cases with successful outcome	Cases needing service	Cases with successful outcome
Location	69	51	53	31
Paternity establishment	50	20	73	14
Support order establishment	84	30	95	16
Collection	103	42	112	25

Table I.5: Numbers of Cases Needing Services and With Successful Outcomes Among Cohort Cases in Arizona Offices

Service needed	Private office		Public office	
	Cases needing service	Cases with successful outcome	Cases needing service	Cases with successful outcome
Location	40	15	48	11
Paternity establishment	23	2	31	3
Support order establishment	35	5	52	3
Collection	53	8	57 ^a	3

^aWe could not determine whether or not one of the original 58 cases received any collection.

We did not conduct a similar analysis for the paired offices in Tennessee because of the small number of cases at the public office that met our criteria for inclusion. Table I.6 shows summary data for the cases from the private office in Tennessee.

Table I.6: Summary Data for Cases From Private Office in Tennessee

Service needed	Cases needing service	Cases with successful outcome
Location	24	16
Paternity establishment	18	5
Support order establishment	40	12
Collection	52	13

Logistic Regression Models

In addition to calculating simple observed differences for the four activities, we used a multivariate statistical technique—logistic regression—to assess whether differences between offices were statistically significant after adjusting for differences in caseload characteristics. In each model, the dependent or outcome variable reflected whether an attempted action was successful or not (1 if successful, 0 otherwise), while the primary independent variable of interest was office type (1 if public, 0 if private). We included other independent variables in the models to adjust for caseload characteristics that could influence an office's performance. These variables included AFDC status at case opening (1 if AFDC, 0 otherwise) and, if relevant to the outcome analyzed, whether the case needed a particular action at case opening (1 if needed, 0 otherwise).²⁰ Table I.7 shows the distribution of cases on these characteristics for each office in our analysis.

²⁰As table I.7 shows, in our analysis of office pairs, the public offices had a higher percentage of AFDC cases. State officials said that AFDC cases are generally harder to work for various reasons, including limited case information and difficulties in securing the cooperation of custodial parents, compared to non-AFDC cases. The actions we controlled for are location and paternity and support order establishment.

Table I.7: Distribution of Cohort Cases on Selected Characteristics

	Virginia				Arizona			
	Public		Private		Public		Private	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Cases	112	100	103	100	58	100	53	100
AFDC cases	81	72	54	52	53	91	36	68
Cases needing								
Location	53	47	69	67	48	83	40	75
Paternity establishment	73	65	51	50	31	53	23	43
Support order establishment	95	85	84	82	52	90	35	66
Location and paternity and support order establishment	39	35	32	31	26	45	22	42
Collection only	9	8	3	3	0	0	8	15

Table I.8 contains the coefficients obtained from the logistic regression models and their respective levels of statistical significance (p-value). The model coefficients reflect the magnitude of the relationship between each independent and outcome variable. In general, the more the coefficient differs from 0, the more closely the variables are related. The p-value for each coefficient represents the probability that our analysis would have produced a coefficient of that magnitude or greater (that is, more different from 0) if the two variables were not related. We considered coefficients with p-values lower than .05 to be statistically significant. We considered coefficients with p-values between .05 and .06 to be approaching statistical significance. Our analysis assumes that the cases we analyzed represent random samples of all new cases handled by the offices. While we analyzed all cases meeting certain criteria that were opened in a particular month, for the purpose of assessing statistical significance we considered these cases as point-in-time samples that are representative of each office's general performance on new cases.

Table I.8: Logistic Regression Coefficients and Corresponding P-Values Obtained From Models

Model	Virginia		Arizona	
	Coefficient	P-value ^a	Coefficient	P-value
Location				
Office type	-0.5162	.21	-0.5360	.27
AFDC status	-1.3183	.01	-1.3104	.04
Paternity establishment				
Office type	-0.8411	.05	-0.3268^b	.76^b
AFDC status	-1.1565	.01	^b	^b
Need for location	-0.1838	.67	-2.1196 ^b	.06 ^b
Support order establishment				
Office type	-0.7309	.06	-1.0242	.26
AFDC status	-1.4297	.00	-0.7319	.55
Need for location	0.3849	.33	-1.5279	.08
Need for paternity	-0.3783	.34	-1.4314	.12
Collection				
Office type	-0.8638	.04	-0.6956	.39
AFDC status	-1.4324	.00	-1.2626	.16
Need for location	-0.0655	.87	-0.0048	.99
Need for paternity	-0.3965	.34	-2.1475	.06
Need for support order	-3.3023	.00	0.5387	.53

Note: To highlight the results for the main variable of interest (office type) the corresponding coefficients and p-values are bolded.

^aThe p-value represents the probability of obtaining a coefficient of this magnitude or further from 0 if the independent variable was not related to the dependent variable. P-values lower than .05 are commonly considered to indicate a statistically significant effect.

^bAFDC status was excluded from model because only two cases that needed paternity establishment did not receive AFDC.

We conducted our study between August 1995 and October 1996 in accordance with generally accepted government auditing standards.

Basic Child Support Enforcement Services

Location includes efforts at local, state, and federal levels to identify a noncustodial parent's address, social security number, place of employment, and other characteristics. This might include efforts to directly contact individuals; contacts with public and private institutions, such as credit bureaus, state and federal income tax agencies; and the use of computer tape matches.

Paternity establishment is the identification of the legal father of a child, usually through the courts or expedited through hearings in a quasi-judicial or administrative body. Paternities are established in either of two ways: (1) through voluntary acknowledgment by the father or (2) if contested, through a determination made on the basis of scientific and testimonial evidence.

Support order establishment involves the development of a support order that legally obliges the noncustodial parent to pay child support and provide medical insurance coverage when available at reasonable cost. The child support enforcement agency must assist custodial parents in initiating an action in court or through an administrative or expedited legal process that will produce such an order. The child support enforcement agency helps in the determination of a child's financial needs and the extent to which the noncustodial parent can provide financial support and medical insurance coverage. Support orders are subject to periodic review and adjustment at least every 3 years in AFDC cases and upon parental request in non-AFDC cases.

Collections and enforcement involves enforcing, monitoring, and processing payments. To enforce payment on delinquent cases or to ensure regularity and completeness of current accounts, child support enforcement agencies have a wide array of techniques at their disposal. These techniques include bonds and security deposits, federal and state tax intercepts, garnishments, liens, and wage withholding, among others. Noncustodial parents' payments must also be monitored, recorded, and distributed.

Contract Information for Full-Service Child Support Privatization Initiatives in 15 States as of September 1996

State	Fully privatized local offices	Contractor	Start date (contract length ^a)	Payment terms ^{b,c}
Arizona				
	Santa Cruz and Yavapai Counties	Policy Studies, Inc.	3/94 (4 years)	32-24 percent ^d
Arkansas				
	Jefferson County	Hunt Law Firm	9/95 (1.8 years)	Fixed fee of \$810,000, reimbursable expenses up to \$490,000 plus incentives
	Greene County	Greene County Child Support Enforcement, Inc.	9/95 (1.8 years)	Fixed fee of \$175,000, reimbursable expenses up to \$290,000 plus incentives
	Garland County	Owen Support Services, Inc.	7/95 (2 years)	Fixed fee of \$390,000, reimbursable expenses up to \$460,000 plus incentives
	Craighead County	Brent Davis, Esq.	7/95 (2 years)	Negotiated contract ^e
	3rd Judicial District (Clay, Jackson, Lawrence, Randolph, and Sharp Counties)	Randolph County Judge/Multi Services, Inc.	7/95 (2 years)	Negotiated contract ^e
	14th Judicial District (Baxter, Boone, Marion, and Newton Counties)	Multi Services, Inc.	7/95 (2 years)	Fixed fee of \$300,000, reimbursable expenses up to \$330,000
Colorado				
	El Paso County	Maximus	1/96 (5 years)	19-10 percent ^d
Georgia^f				
	Cobb, De Kalb, and Fulton Counties	Policy Studies, Inc.	7/94 (4 years)	11.5-10 percent ^d
Iowa^g				
	Fremont, Harrison, Mills, Montgomery, Page, Pottawattamie, and Taylor Counties; Muscatine and Scott Counties; and Boone, Dallas, Jasper, Madison, Marion, Polk, Storey, and Warren Counties	Policy Studies, Inc.	1/96 (5 years)	Flat fee ^h
Maryland				
	Baltimore City	Lockheed Martin IMS	11/96 (4 years)	22.95-20.55 percent ^d
	Queen Anne's County	Lockheed Martin IMS	11/96 (4 years)	9.67 percent

(continued)

**Appendix III
Contract Information for Full-Service Child
Support Privatization Initiatives in 15 States
as of September 1996**

State	Fully privatized local offices	Contractor	Start date (contract length^a)	Payment terms^{b,c}
Mississippi				
	Hinds and Warren Counties	Maximus	7/94 (5 years)	40.1-27.6 percent ^{d,i}
Nebraska				
	Douglas County	Policy Studies, Inc.	2/93 (5 years)	15-13 percent ^d
Ohio^j				
	Hamilton County	Maximus	6/96 (3 years)	9.9-6.6 percent ^{d,k}
Oklahoma				
	Pittsburg and Haskell Counties	Kibois Community Action Foundation (nonprofit)	1993 (4 years)	Cost-reimbursement
	Comanche and Cotton Counties	Great Plains Improvement Foundation (nonprofit)	1993 (4 years)	Cost-reimbursement
South Carolina				
	Georgetown, Horry, Marion, and Williamsburg Counties	To be awarded	1/97 (5 years)	
Tennessee				
	7th Judicial District (Anderson County)	Maximus	7/92 (5 years)	16 percent
	20th Judicial District (Davidson County)	Maximus	7/93 (5 years)	12-10.5 percent ^d
	10th Judicial District (Bradley, McMinn, Monroe, and Polk Counties)	Policy Studies, Inc.	7/96 (5 years)	15.75-13.5 percent ^d
	29th Judicial District (Dyer and Lake Counties)	Policy Studies, Inc.	2/92 (5 years)	19-15 percent ^d
	27th Judicial District (Obion and Weakley Counties)	Policy Studies, Inc.	1/95 (5 years)	17-14 percent ^d
	21st Judicial District (Hickman, Louis, Perry, and Williamson Counties)	To be awarded	1/97 (5 years)	
Virginia^l				
	Hampton ^m and Chesapeake District Offices	Lockheed Martin IMS	2/94 (5 years)	11.45-9.95 percent ^d
	Alexandria and Arlington ⁿ District Offices	To be awarded	1997 (5 years)	

(continued)

**Appendix III
Contract Information for Full-Service Child
Support Privatization Initiatives in 15 States
as of September 1996**

State	Fully privatized local offices	Contractor	Start date (contract length^a)	Payment terms^{b,c}
West Virginia				
	Kanawha County	Policy Studies, Inc.	9/96 (3 years)	18 percent ^o
Wyoming				
	Districts 1, 2, and 3 (Albany, Carbon, Laramie, Lincoln, Sweetwater, and Uinta Counties)	Policy Studies, Inc.	6/95 (4 years)	17.5-16 percent ^d
	Districts 8 and 9 (Converse, Fremont, Goshen, Niobrara, Platte, Sublette, and Teton Counties)	Gray & Associates	5/95 (4 years)	\$724,000 + 8 percent of collections over \$2.5 million

(Table notes on next page)

Appendix III
Contract Information for Full-Service Child
Support Privatization Initiatives in 15 States
as of September 1996

^aLength of contract can include possible annual renewals.

^bUnless otherwise noted, payment terms are expressed as a percentage of contractor-generated collections.

^cPayment terms vary, depending on factors such as caseload volume and composition and use of multiple or single contractors.

^dFirst figure is the payment rate for the contract's first year; second figure is the rate reached by the end of the contract period.

^ePayment terms of negotiated contracts are not disclosed because they are considered private information.

^fThe contract provides for service to non-AFDC clients only; the state continues to provide services to AFDC clients. Additionally, in Cobb and De Kalb Counties, the contractor serves in-state cases only.

^gThis contract provides for the privatization of location, paternity establishment, administrative support order establishment, and certain customer relations services in the areas shown. The state continues to provide other services.

^hThis performance-based contract is subject to monetary penalties and liquidated damages.

ⁱTerms are for a statewide operation of a full-service program that has not yet been implemented and is pending legislative approval. In addition, the contractor received \$2.98 million for start-up costs between April and June 1994 and \$14,180,262 as a flat fee for the first 15 months of the program. As amended for the period from July 1, 1996, through June 30, 1997, the contract provides for compensation of \$4.39 million, including incentives, and additional bonuses paid on the basis of collections.

^jUnder this performance-based contract, the caseload—both AFDC and non-AFDC—is shared by the contractor and the county child support agency. Currently, the contractor's share of the county caseload is estimated by the state child support director to be about 40 percent.

^kThis payment rate applies to non-AFDC cases only. Other rates apply to other types of cases, for example, from 26.8 to 17.8 percent of collections for AFDC cases, and 10.5 to 6.6 percent of collections for outgoing interstate cases. Compensation is not to exceed \$6,308,554.

^lThe state legislature has authorized the creation of two new district offices in addition to those listed. The new district offices that would serve areas yet to be determined are to be established in state fiscal year 1997 and state fiscal year 1998.

^mThe Hampton District Office serves the city of Hampton and Gloucester, Mathews, Middlesex, Poquoson, and York Counties.

ⁿThe Arlington District Office will serve the cities of Arlington and Falls Church.

^oPayment not to exceed \$2.2 million in the contract's first year.

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Selected Demographic Characteristics of the Localities Reviewed

Unless otherwise noted, the source for all demographic data in this appendix is U.S. Bureau of the Census, *County and City Data Book 1994* (Washington, D.C.: U.S. Bureau of the Census, 1994).

Virginia

Located in the Norfolk-Virginia Beach-Newport News metropolitan area, the Hampton District Office serves both suburban and rural areas. In 1992, the population in Hampton was about 137,000. Located in the same metropolitan area, the Portsmouth District Office serves Portsmouth City, with a 1992 population of about 105,000. In 1989, the median income in Hampton was \$30,144 and in Portsmouth, \$24,601. In 1989, 8.8 percent of the families in Hampton had incomes below the poverty level, compared with 14.9 percent in Portsmouth.

Like Portsmouth, in 1992, Hampton was among the top 25 counties/jurisdictions in the country in federal civilian employment. Hampton's June 1994 caseload of 15,000 was about 42 percent AFDC and 58 percent non-AFDC. At the same time, Portsmouth served a caseload of about 14,000, about 51 percent of which were AFDC cases and 49 percent non-AFDC.

Statewide in 1992, there were 36.9 births to unmarried teenagers between 15 and 19 years old per 1,000 females.²¹ According to 1988 Bureau of the Census data, 11.7 percent of all births in Hampton were to mothers under 20 years old, compared with 18.6 percent in Portsmouth and 11.2 percent statewide.

Arizona

Yavapai County is north of Phoenix; its 1992 population was about 116,000, compared with about 106,000 in Mohave County. While Yavapai County is outside the state's metropolitan areas, it has one major town within its borders—Prescott. Mohave County is in a metropolitan area (Las Vegas, Nevada); its major urban areas include Kingman, Bullhead City, and Lake Havasu City. In 1989, the median income in Yavapai was \$22,060, and in Mohave, \$24,002. In 1989, 9.8 percent of Yavapai's families had incomes below the poverty level, compared with 8.7 percent in Mohave. In state fiscal year 1994, the Yavapai office had about 10,000 child support cases; about 24 percent were AFDC and 76 percent non-AFDC. At that time, Mohave's caseload was about 15,000, 36 percent of which were AFDC cases.

²¹Annie E. Casey Foundation, *Kids Count Data Book 1995* (Baltimore, Md.: Annie E. Casey Foundation, 1995).

Mohave County stands out among Arizona counties in two respects. Mohave's population is highly mobile: from 1985 to 1990, the county led the state in the percentage of movers, 61.7 percent. Mohave County also had the highest population growth rate of any county in the state between 1980 and 1992: 89.8 percent.

Statewide, the unmarried teenage birth rate in 1992 was 62.7 per 1,000.²² Census data show that 15.3 percent of all births for Yavapai County in 1988 were to teenage mothers, 15.1 percent for Mohave, and 13.8 percent statewide.

Tennessee

Both the Seventh and Fifth Judicial Districts—Anderson County and Blount County, respectively—are in the Knoxville metropolitan area, with Anderson County lying north of the city and Blount County to its south. Anderson County's 1992 population was about 70,500, compared with about 90,400 in Blount County. Major towns include Clinton and Oak Ridge in Anderson County and Maryville in Blount County. In 1989, Anderson County's median income was \$26,496, compared with \$25,575 in Blount County. The percentage of families with incomes below poverty in 1989 was 11.5 percent in Anderson County and 10 percent in Blount County. From June 1994 through December 1995, the Seventh Judicial District served a caseload of about 4,600, almost evenly divided between AFDC and non-AFDC cases. During the same period, the Fifth Judicial District's caseload was about 6,300, of which 73 percent were AFDC cases and 27 percent non-AFDC cases.

The Twentieth Judicial District serves Davidson County, which includes Nashville, which had a 1992 population of about 495,000. In 1989, the county's median income was \$27,821 and 13.4 percent of the county's families had incomes below the poverty level. The child support caseload in state fiscal year 1994 was about 39,400, and 57 percent were AFDC cases.

Statewide, in 1992, there were 46.3 births to unmarried teenagers 15 to 19 years old per 1,000 females, close to the national average of 42.5.²³ According to 1988 Census data, teenage mothers accounted for 16.0 percent of all births in Anderson County, 14.2 percent in Blount County, 15.2 percent in Davidson County, and 17.2 percent statewide.

²²Kids Count Data Book 1995.

²³Kids Count Data Book 1995.

Comments From the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

NOV 20 1996

Mr. Mark V. Nadel
Associate Director,
Income Security Issues
United States
General Accounting Office
Washington, D.C. 20548

Dear Mr. Nadel:

The Department has carefully reviewed your draft report entitled, "Child Support Enforcement: Performance of Fully Privatized Offices Comparable to That of Public Offices." Comments were sent to your office on November 4, 1996, but have since been revised by the Department's Administration for Children and Families. The revised comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael Mangano", is written over the typed name.

for June Gibbs Brown
Inspector General

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for General Accounting Office reports. The OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

Appendix V
Comments From the Department of Health
and Human Services

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE
U.S. GENERAL ACCOUNTING OFFICE'S DRAFT REPORT "CHILD SUPPORT
ENFORCEMENT: PERFORMANCE OF FULLY PRIVATIZED OFFICES COMPARABLE
TO THAT OF PUBLIC OFFICES" (GAO/HEHS/97-4)

We appreciate the opportunity to review and comment on the report. The following general comments are offered.

General Comments:

The report can be a useful resource to states as they consider full-service privatization of child support enforcement functions. It quite appropriately notes that performance was reviewed on a small set of cases for a limited time period and may not necessarily be representative of long-term public and private performance overall. It correctly cautions readers that performance and unit cost advantages found in some private agencies may have been due to staffing and resource factors over which public agencies did not have the same degree of flexibility.

We suggest that additional discussion in the section concerning the data-match issue may further benefit readers. While it is correct that contractors may have quarterly access to in-state unearned income data from financial institutions under provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (page 24), it will be some time before such data are available in all states. The 1099 data have additional value as they are currently available and can be especially useful in establishing and enforcing child support orders across state lines. Further, we agree with the reported view of states that public employee verification of 1099 data is an additional step which may negate some benefits of full-service privatization.

Related GAO Products

Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results (GAO/HEHS/GGD-97-14, Oct. 25, 1996).

Child Support Enforcement: States' Experience with Private Agencies' Collection of Support Payments (GAO/HEHS-97-11, Oct. 23, 1996).

Child Support Enforcement: States and Localities Move to Privatized Services (GAO/HEHS-96-43FS, Nov. 20, 1995).

Child Support Enforcement: Opportunity to Reduce Federal and State Costs (GAO/T-HEHS-95-181, June 13, 1995).

Child Support Enforcement: Families Could Benefit From Stronger Enforcement Program (GAO/HEHS-95-24, Dec. 27, 1994).

Child Support Enforcement: Federal Efforts Have Not Kept Pace With Expanding Program (GAO/T-HEHS-94-209, July 20, 1994).

Child Support Enforcement: Credit Bureau Reporting Shows Promise (GAO/HEHS-94-175, June 3, 1994).

Child Support Assurance: Effect of Applying State Guidelines to Determine Fathers' Payments (GAO/HRD-93-26, Jan. 23, 1993).

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, Aug. 13, 1992).

Medicaid: Ensuring That Noncustodial Parents Provide Health Insurance Can Save Costs (GAO/HRD-92-80, June 17, 1992).

Interstate Child Support: Wage Withholding Not Fulfilling Expectations (GAO/HRD-92-65BR, Feb. 25, 1992).

Interstate Child Support: Mothers Report Less Support From Out-of-State Fathers (GAO/HRD-92-39FS, Jan. 9, 1992).

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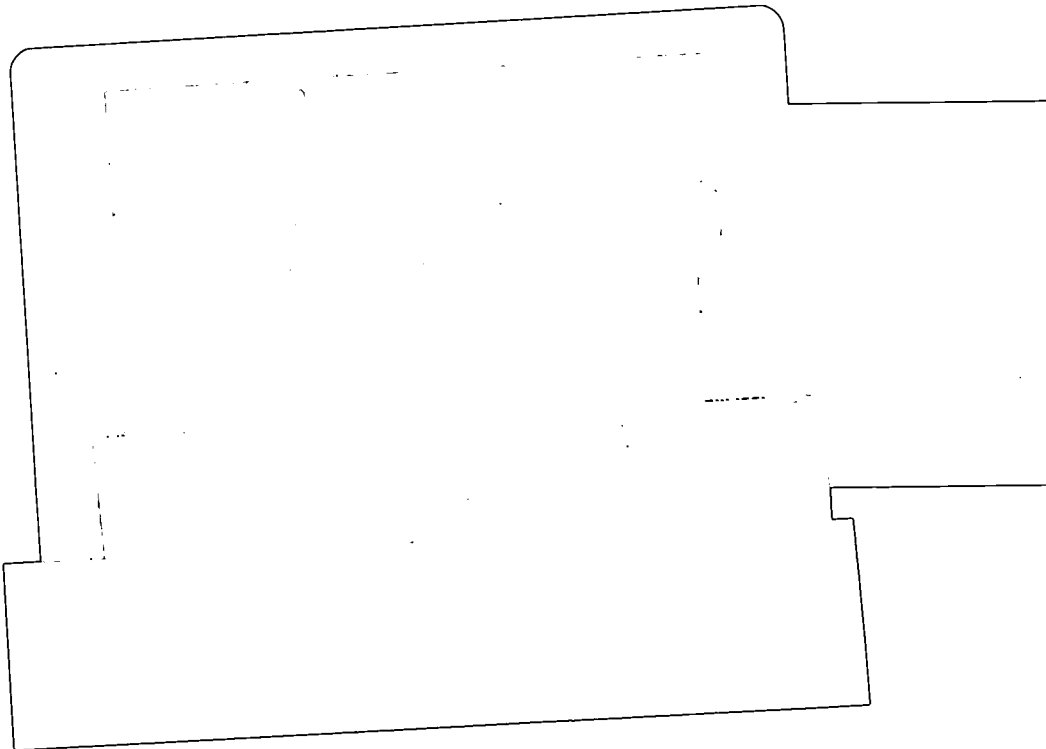
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